**Introduction to budgeting**

A **Budget** is:

* a written financial plan of a business for a specific period of time, expressed in dollars.
* a view into the future.
* a financial estimate of future business activities.
* a business' financial plan.
* a reflection of the best projections possible by those persons who prepared it.

**Budgeting** is the process of planning the financial operations of a business.

The two most common budgets prepared in business are the **budgeted income statement** (go there now) and the **cash budget** (go there now).

**Budgeting Process**

* good budgeting process results in well-thought-out plans and careful analysis
* promotes good decision making
* involves the company's goals such as to increase sales, reduce cost of merchandise sold, or increase net income.
* requires thorough analysis

**A Budget's Purpose:**

* Planning
* Control
* Coordination
* Decision Making

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| --- | --- |
| **Pros and Cons of Budgeting** | |
| **Pros** | **Cons** |
| * provide a method of allocating and using resources within the organisation * help to monitor and control operations * promote forward thinking * show employees an overall picture of the direction of the organization which can motivate staff * help to co-ordinate different departments and align them towards shared objectives * provide a framework for delegation. | * Staff time devoted to budgets carries a real opportunity cost. The time these workers give to the budgeting process means they are not available to carry out other responsibilities. * Errors and accuracies will always remain since it is impossible to predict the future. Major external events such as rising energy prices or the global recession may distort the whole process. * Budgets involve and affect people, they may cause conflict. There may be difficult choices over where limited funds are spent. Some departments with tight budgets could feel constrained. This carries the risk of frustrating initiative and enterprise. |

Use the space below to come up with more pros and cons:

|  |  |
| --- | --- |
| **Pros** | **Cons** |
|  |  |

**Planning and Control:**

Planning is the process of developing future objectives and goals, and preparing the budget(s) to accompany those objectives and goals. It can be a time intensive task, and it prepares for the control phase of budgeting.

**Types of Budgets:**

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| --- | --- |
| Controlling is the action taken after making a comparison of actual results with the budget. Management ensures that the objectives and goals set down in the planning stage are carried out. Activities should be monitored and corrective action taken if actual results differ from those suggested in the objectives. The budget becomes the standard by which managers measure revenues and expenses. |  |
| There can be no control without effective planning. The master budget is the budgeted financial statements and the subordinate schedules. It is comprised of many specialized budget schedules such as the five given below. |  |

